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# IN BRIEF

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## Expenditure Review 2004

The government launched Expenditure Review in December 2003 as part of a package of initiatives designed to improve financial management and to control costs. While largely modelled on the 1994 Program Review, it is a more comprehensive and ambitious undertaking, projected to take several years. In the end, it is expected to deliver significant savings – in the billions of dollars – for the government to allocate towards key priorities.

### FIRST ANNOUNCEMENT: THE 2003 BUDGET

Faced with large expenditures associated with a series of crises in health and safety that threatened to disrupt the fiscal plan, the federal government announced new measures to control spending in the 2003 Budget (these crises included severe acute respiratory syndrome [SARS], bovine spongiform encephalopathy [BSE], and the electricity blackout in Ontario). Departments and agencies were asked to reallocate a total of \$1 billion per year from their budgets to help fund the cost of any new initiatives. At the same time, the government launched an ongoing review of all non-statutory programs over a five-year cycle to ensure their continued relevance, effectiveness, and affordability.

### BUILDING ON THE COMMITMENT: THE 2004 BUDGET

The low profile of the 2003 Budget announcement changed with the creation of the Expenditure Review Committee. First announced in December 2003, the initial objective of the new Cabinet-level committee was to reallocate \$2 billion in program spending towards health care funding. The government built on the commitment in the 2004 Budget, pledging that the Committee would identify within four years at least

\$3 billion annually in savings for investments in key government priorities including health care, child care, Aboriginal people, and communities.

### 2004 PROGRAM REVIEW: STRENGTHENING PUBLIC SECTOR MANAGEMENT

The 2004 Expenditure Review is part of a larger effort by the government to improve governance and accountability, an effort outlined in *Strengthening Public Sector Management: An Overview of the Government Action Plan and Key Initiatives* issued with the 2004 Budget. In addition to the establishment of a review committee, other key measures outlined in the plan included strengthening the comptrollership and oversight functions of the Treasury Board Secretariat.

The Expenditure Review process continues to evolve. In July 2004, the Committee became a sub-committee of Treasury Board and shortly afterwards, in August, a new Expenditure Review Secretariat was created within the Privy Council Office. The government also announced the establishment of a separate Caucus Committee on Expenditure Review, which is to provide a forum for input and discussion by Members of Parliament outside of Cabinet.

### MANDATE AND REVIEW PLAN

As outlined in the *Action Plan and Key Initiatives*, the review will focus on reallocating resources from outdated or redundant programs to new priorities. To this end, the Committee is guided by three objectives:

- ensure value for money for taxpayer investments;
- identify opportunities to reallocate federal spending from lower- to higher-priority programs; and

- recommend ways to strengthen management, oversight and effective delivery of programs and services.

Building on the experiences of the earlier Program Review, Expenditure Review will take a two-stage approach, focussing initially on each program's relevance and then on whether any adjustments are sustainable over the long term. First, all program spending is to be tested against a series of policy tests: public interest; role of government; federalism; partnership; value for money; efficiency; and affordability. New to this round of program evaluation is the second set of criteria – implementation tests – intended to ensure the sustainability of any reforms. They involve questions regarding: achievability; future cost; capacity; human resource management; program integrity; and horizontal implications.

In contrast to the Program Review launched in 1994, the 2004 Expenditure Review is not limited to non-statutory expenditures. According to the *Action Plan*, over the course of 2004, the Expenditure Review Committee is to undertake three major reviews of the spending and operations of the Government of Canada and will review existing expenditures, programs and their management:

- on a department-by-department basis;
- across departments, focusing on high-priority policy areas; and
- across areas that govern the federal government's management and operations.

Although the Committee is reviewing \$133 billion in total spending, it is expected to find its biggest savings among the \$63 billion spent on government operations (including procurement and office space), capital spending, grants and contributions, and other payments to departments and agencies.

### **1994 PROGRAM REVIEW: GETTING GOVERNMENT RIGHT**

Expenditure Review has drawn comparisons to the 1994 Program Review. Over the four years of the earlier review, guided by a set of policy tests, the government introduced significant reforms to federal program design and delivery. These measures included substantial reductions in the public service, cutbacks in direct subsidies to businesses, the

elimination of agricultural and transportation subsidies, and other reductions to government programs and services. As a consequence of the review, the federal government no longer owns, operates or subsidizes large parts of Canada's transportation system.

While the 2004 process is similar, the fiscal context is very different. In the 1990s, Canada's unsustainable fiscal situation provided the necessary foundation for support for downsizing the federal government. In 1993, the annual deficit had grown to more than \$42 billion; in 1995-1996, Canada's debt-to-GDP ratio peaked at 70.9%, and its total debt burden was the second-highest among G7 countries. Public confidence in the ability of the federal government to manage its finances was eroding, and the government responded by launching Program Review. The expenditure reductions identified through the review were instrumental in bringing the budget into balance and restoring fiscal stability.

While the 1994 exercise was successful from a fiscal perspective, critics argued that it had several failings: that the criteria for review were applied inconsistently; that the process, run from within Cabinet, was secretive and exclusive; and that many of the savings were actually achieved as a result of downloading programs and services onto lower levels of government without compensation, or through the introduction of user fees. Program Review resulted in a substantial reduction in the public service, a trend that was largely reversed as federal government finances improved over the next decade. As well, funding was restored to some programs where the reductions proved unsustainable.

Faced with some trepidation from the public service, senior government officials have emphasized that this latest review is not Program Review II. Notably, the sense of fiscal urgency that drove the reforms in the 1990s is absent: in 2004, the government was predicting its seventh consecutive year of balanced or better budgets. Government officials have reiterated that expenditure review is not likely to result in the massive program spending cuts or loss of public service jobs of the 1990s; in fact, there are no specific targets for cuts. The process has also taken into account some of the criticisms of the earlier review: it provides more opportunities for government-wide consultation and a second set of review criteria intended to ensure the sustainability of any reforms.

## CONCLUSION

The federal government's commitment to identify billions annually in savings through Expenditure Review is an ambitious undertaking. With the deficit under control, ensuring increased funding to the health care system has taken on a similar urgency and could provide the necessary impetus for fundamental reforms under the review, as could the renewed focus on accountability and financial control. The Committee's first recommendations are expected in the late fall of 2004.

## SELECTED REFERENCES

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<http://www.tbs-sct.gc.ca/report/dwnld/gfce.pdf>.

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